

**HM Revenue & Customs (HMRC) – Call for evidence
The role of online platforms in ensuring tax compliance by their users
Response from the Low Incomes Tax Reform Group (LITRG)**

1 Executive Summary

- 1.1 LITRG welcomes any changes that help people navigate their tax affairs easily and accurately.
- 1.2 Historically there has not been any tax education in the school curriculum. Since the tax system is complicated and the Pay As You Earn (PAYE) system encountered by most individuals does not encourage engagement with the tax system, many people are at best confused and at worst completely unaware of their tax obligations when participating in the sharing or gig economies. Developing tax literacy is essential to equip people for navigating the opportunities – and pitfalls – of the sharing/gig economies.
- 1.3 The sharing/gig economies have provided many people with the opportunity to make some money but have also provided some additional leeway for those that are so inclined to evade taxes. However, not everyone who is non-compliant is intentionally non-compliant. In many cases, it will not even occur to people that their income is taxable, let alone what their obligations are in respect of it.
- 1.4 This is particularly the case for those in the gig economy, given the irregular and often ‘on demand’ nature of the income. Others in the gig economy may be unaware that even where the level of income means that there will be no tax or National Insurance due, HMRC should still be notified, as it may still be necessary to complete a tax return.
- 1.5 This is unsurprising as neither HMRC nor many of the online platforms really tell them. There is an urgent need for the GOV.UK page on selling services online to be amended (see

paragraph 4.3.7). Currently it gives the impression that it is only necessary to file a tax return if one needs to pay income tax, i.e. if one's total income including income is more than the personal allowance and any other reliefs for which one is eligible.

- 1.6 In fact, anyone who is self-employed with profits above the £1,000 trading allowance needs to complete a tax return and is obliged to tell HMRC so that a self-assessment record can be set up. Anyone who neglects to complete a tax return in reliance on this page risks being unintentionally non-compliant, exposing them to penalties for failing to notify HMRC of their need to be in self-assessment.
- 1.7 Registration for self-assessment is just the first difficult hurdle for such individuals. Many will not have had to fill in a tax return before and are unlikely to engage an accountant or tax adviser (despite this being the default signpost from many online platforms). As a consequence, these individuals have to navigate the complexities of the self-assessment system on their own, which may well result in non-compliance or under-reporting. We think this is all the more likely considering the introduction of the £1,000 tax free allowances from April 2017 which – although welcome in many respects – have brought in another complexity.
- 1.8 There are a variety of ways that HMRC and the online platforms could work together to create a culture of tax compliance within the sharing and gig economies. For example, HMRC could convey messages through the online forums to point users to appropriate HMRC publications or other sources of help. HMRC could try and learn from the online platforms about specific challenges and issues for those in the sharing/gig economies, and tailor its guidance for both taxpayers and HMRC staff accordingly.
- 1.9 In terms of what overseas authorities are doing, it seems to us that withholding, in particular, could provide clear benefits to Government and taxpayers alike in the UK context. However, many individuals in the gig economy are making lots of relatively small amounts of money and often, there will be significant expenses. Withholding would therefore have to be at a rate (or otherwise in circumstances) that would minimise the number of situations in which workers have to claim refunds of over-deducted tax (or indeed, have unexpected liabilities at the end of the year).
- 1.10 One option would be a straight withholding at a particular rate – perhaps with different percentages for different sectors (a bit like the flat rate VAT scheme). Another option would be to try and tailor the withholding rate to an individual's liability by asking a few simple questions via an online calculator.
- 1.11 Final adjustments could be made by means of a simple reconciliation process at the end of the year – we do not think the requirement to do a full self-assessment tax return is really sensible or necessary for certain groups of taxpayers, including those in the gig economy.
- 1.12 It goes without saying that any withholding requirement has to work from both the perspective of HMRC and the online platforms and it should not be so resource intensive that it is uncommercial for the platform to apply it, or for HMRC to monitor it. It is vital that

HMRC work closely with and develop good guidance for, the online platforms, to ensure they 'buy in' to the concept and understand what is expected of them.

- 1.13 Further research is required to fully understand the impact of withholding on those concerned and not least, the feasibility of implementing the requirement on online platforms. In particular thought should be given as to how withholding may interact with a person's Universal Credit (UC) position, given UC is based on their net (after tax) income.
- 1.14 We should be happy to discuss any aspect of our comments and to take part in all further consultations on this area.

2 About Us

- 2.1 LITRG is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998, LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those on low incomes. Everything we do is aimed at improving the tax and benefits experience of low income workers, pensioners, migrants, students, disabled people and carers.
- 2.2 LITRG works extensively with HMRC and other Government departments, commenting on proposals and putting forward our own ideas for improving the system. Too often the tax and related welfare laws and administrative systems are not designed with the low-income user in mind and this often makes life difficult for those we try to help.
- 2.3 The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it – taxpayers, advisers and the authorities.

3 Introduction

- 3.1 We recognise that the use of online platforms by workers to source small, sometimes on-demand, pieces of work for which they are paid gross (i.e. the 'gig economy') allows them to earn money when they otherwise might not be able to. Nevertheless, as tax specialists with an interest and expertise in the low-paid, we have some concerns about this trend.
- 3.2 Gig workers are most likely to be categorised as self-employed for tax purposes,¹ even if they are considered 'limb (b) workers' for employment law purposes, with all the associated reporting requirements that being self-employed entails. For example, most gig workers need to register for self-assessment (even if their overall taxable income is below the

¹ Their income may also be miscellaneous income if it is a one-off piece of work or otherwise very casual, but such income will nonetheless be taxable unless it falls under the £1,000 trading allowance (which also covers miscellaneous income).

personal allowance), prepare accurate accounts and annual tax returns, keep fastidious records of income and their expenses, potentially calculate their own tax and Class 2 and 4 National Insurance liabilities and budget to make those payments.

- 3.3 For the individuals we represent, these are onerous responsibilities. We suggest that it is not clear or easy for a young or migrant worker, for example, to find out about and understand their responsibilities and this has worrying consequences not only for the Exchequer but for the individual concerned. There can also be other knock on effects such as an incomplete or inaccurate National Insurance contribution (NIC) record.¹ We therefore welcome the opportunity to respond to this consultation.
- 3.4 The gig economy is growing fast, yet is controversial. Some champion its progressiveness and say it creates opportunities for individuals who might otherwise struggle to find work. Others point to vulnerability of the workers and say that behind the innovative technology and new language of ‘tasks’ and ‘rides’, etc., an old problem lies – the workers are not genuinely self-employed but are being forced down this route by businesses looking to minimise their costs and obligations.
- 3.5 It is therefore interesting to us that this consultation does not make clear that the employment status of gig workers may be subject to debate (nor that the Taylor review has called for ‘worker’ status to be aligned with employee status for tax purposes anyway).² It seems to only focus on reforms that can be bolted on to the current status quo, which makes it hard for us to comment coherently when the status quo itself may be wrong.
- 3.6 The comments that we go on to give should therefore not be read as an endorsement of the principle that self-employment status is necessarily correct for these workers. Ideally HMRC would try and get to the bottom of this, before any substantive interventions are made in this area (as discussed in section 4 of the consultation document).
- 3.7 We have answered specific questions where we feel we have something to add (namely 1 to 8) but have only provided a few high-level comments on the section of the consultation document looking at other countries and potential approaches.

¹ Non-reporting or under reporting of earnings could be affecting people’s ability to build a National Insurance record for state pension purposes and entitlement to other state benefits.

² While a bigger ‘swing’ is required from self-employed status to employee status than from self-employed status to ‘worker’ status, HMRC’s ears will no doubt have pricked at the decisions in some recent high profile employment tribunal decisions that those in the gig economy are ‘workers’ and not self-employed (e.g. the *Uber* case).

4 Questions

4.1 **Question 1: What helps users of online platforms to understand their tax obligations? Where do users currently seek help?**

- 4.1.1 Reliable, detailed, up-to-date, clear information, split into easy to follow, logically sequenced 'chunks', helps people understand their tax obligations. Obviously, this observation is not restricted to users of online platforms but *anyone* trying to understand their tax obligations.
- 4.1.2 The material on our own website www.litrg.org.uk, fulfils much of this brief and it is no doubt because of this that we have millions of visitors a year (about 4 million in 2017 across our websites and growing, despite being a relatively small charitable organisation with limited resources).¹
- 4.1.3 If users of online platforms are not finding their way to our help (it is available freely and we do our best to publicise it, however we recognise our reach may be somewhat limited), then they may find their way to GOV.UK. However, see our comments from para 4.3.5 as to what we perceive to be severe limitations in respect of the tax guidance available on the GOV.UK website.
- 4.1.4 Otherwise, they may seek help from family or friends, the 'man in the pub' or other internet sources – all of which have inherent risks. They may also seek help from the platforms themselves, with varying degrees of success, as we look at in section 4.2.
- 4.1.5 However, it should be remembered that recent HMRC research suggests that many people (54%) who have earned income from the sharing/gig economies do not consider it to be taxable.² Therefore it follows that many users of online platforms do not seek help anywhere to understand their tax obligations, because they do not realise they have any.
- 4.1.6 This figure is worrying, although unsurprising to us. How are people supposed to know what taxable income looks like, let alone know what their obligations are in respect of it?

¹ For a few examples of LITRG content that users of online platforms should find useful in understanding their tax obligations, see the following:
What is the trading allowance? – <https://www.litrg.org.uk/tax-guides/self-employment/working-out-profits-losses-and-capital-allowance/how-do-i-work-out-my#toc-what-is-the-trading-allowance>
Rent a room – <https://www.litrg.org.uk/tax-guides/other-tax-issues/property-income/rent-room>
Gig economy and tax – did you earn some extra cash during 2016/17 tax year? If so, read this! – <https://www.litrg.org.uk/latest-news/news/171222-gig-economy-and-tax-%E2%80%93-did-you-earn-some-extra-cash-during-201617-tax-year-if>
Shopping online – beware of additional tax charges – <https://www.litrg.org.uk/latest-news/news/171026-shopping-online-%E2%80%93-beware-additional-tax-charges>

² <https://www.gov.uk/government/publications/sharing-economy-user-characteristics-and-tax-reporting-behaviour>

- 4.1.7 Most people understand little about our tax system. Historically there has not been any tax education in the school curriculum; even now, tax education is variable.¹ The PAYE system then usually steps in when people enter the workforce, discouraging employees from engaging with their tax affairs. The employer is the tax gatherer, administering an employee's tax for them and the employee can become very passive, assuming it is all taken care of.
- 4.1.8 People therefore just have no tax antennae when it comes to recognising taxable income – especially if we are talking about a very small, or a secondary source of income. Developing tax literacy is essential to equip people for navigating the opportunities – and pitfalls – of the sharing and gig economies and while there is certainly more that the online platforms could do in this area, we think the primary responsibility for this rests with the authorities.
- 4.2 ***Question 2: To what extent do users seek help from online platforms themselves? What evidence is available on how this support is used?***
- 4.2.1 We assume that many people seek help from online platforms. However, having undertaken some quick online research, we can see that some online platforms do not really help people with tax at all, restricting themselves to providing unhelpful signposts, for example 'Please check with your accountant or financial advisor regarding the tax implications of collecting an income through renting out your parking space'.² This is unhelpful to the low-paid because often they cannot afford an accountant or financial advisor.
- 4.2.2 A few online platforms provide a little more by way of substantive comment, but this still tends to be quite basic and is often buried in the small print.³
- 4.2.3 Other online platforms provide help by setting up 'community' forums where users can share information or solicit advice,⁴ including about tax matters. In such spaces however, there is no control over the accuracy of the content and so individuals could easily be misled by incorrect information posted in good faith by another user. Even where the information provided is correct, there are often multiple messages flying around and/or 'information overload'. For people unfamiliar with what to look for, it could be hard to pick out the objective and reliable information in all of the user-generated content.
- 4.2.4 This is likely to be one of the reasons that we sometimes get queries through our website from people 'double checking' their position in the context of what to do about their income

¹ A relevant cross-reference here is to the work of the APPG on Financial Education for Young People. LITRG has contributed to their work in the past and we have stressed the need to include tax as part of young people's financial education: <https://www.litr.org.uk/latest-news/news/160122-press-release-campaigners-urge-higher-priority-school-lessons-about-money>

² <https://www.parkonmydrive.com/faq.php>

³ As an example see here: <https://www.airbnb.co.uk/help/article/1379/responsible-hosting-in-the-united-kingdom>

⁴ <https://community.ebay.co.uk/t5/Answer-Centre/ct-p/11900000007>

from online platforms. It seems therefore, that where online platforms do provide help to users in understanding their tax obligations, this is merely seen as the starting point to further research.

- 4.2.5 In many ways, this minimalist approach to tax help from the online platforms is to be expected. They are commercial businesses and they want to concentrate on helping people run and develop their activity¹ (which is how they themselves make their money), not helping people get to grips with tax. However, if the aim is to make the UK the home for the sharing/gig economies,² there is significant scope for getting online platforms more involved.

4.3 ***Question 3: What potential barriers do you think there are to users of online platforms in understanding their tax obligations? What evidence do you have about the impact of these barriers?***

- 4.3.1 As alluded to in para 4.1.8, a lack of tax literacy is a barrier to users of online platforms understanding their tax obligations. In the course of our daily work we observe individuals, particularly low-income taxpayers who are unable to afford professional advice, being seriously disadvantaged through not being at least broadly familiar with the tax system, their obligations and any entitlements that could arise. Equally, unfamiliarity with general financial matters, often combined with a lack of numerical ability and a fear of the unknown, can lead to many other problems.
- 4.3.2 The fact the self-assessment system is so complicated and subject to constant change is another barrier to users of online platforms in understanding their tax obligations. The £1,000 tax free 'allowances' – although welcome in many respects – can give out mixed messages about sharing and gig economy income and record keeping obligations (if people assume that their trading income will be under the limit they can ease off on their record-keeping obligations – problematic if their income then exceeds it). For those that are not exempt from self-assessment due to these allowances, having to decide between technical bases, e.g. accruals vs cash basis, actual vs simplified expenses, so on and so forth, does not help the perception that tax returns are difficult for individuals to accurately prepare unaided. Changes due to come in under the Making Tax Digital programme mean those in self-assessment will need to become versed in a completely new system, creating more confusion and queries.
- 4.3.3 These problems are compounded for the many people using online platforms, particularly those in the gig economy, who are migrants with limited English (or who due to cultural differences, do not feel trusting of the establishment to ask questions). Yet HMRC do not, to our knowledge, provide any information to migrant workers in their own language or do any specific outreach work. They used to provide a short introductory guide to the UK tax system in many different languages but HMRC removed it as they thought that it did not

¹ As an example, see here: https://pages.ebay.com/seller-center/index.html?utm_source=gf&utm_medium=onsite

² <http://www.sharingeconomyuk.com/about-us>

help people to integrate. In our view, such a guide may help migrants in the gig economy understand their obligations/stay out of the hidden economy and would therefore actually aid integration in the long term.

- 4.3.4 Finally, a lack of help from official sources is also, in our experience, a barrier to users of online platforms understanding their tax obligations. For example, there are currently huge gaps in the information on GOV.UK meaning that those in the gig economy face a difficult, in some cases impossible, task in trying to understand their tax obligations.
- 4.3.5 GOV.UK is a vast repository of Government information. Many will be clueless as to where to start looking for more information about their tax obligations. A quick search on GOV.UK for 'declare some income' returns a bewildering 75,243 results¹ with the first page cluttered with links to information about Universal Credit, student finance, Authorised Investment Funds: interest distributions to trustees (R105 (AIF4)) and council tax.
- 4.3.6 If they do eventually find the page on GOV.UK that is to relevant to them,² it comes up short. The material is over-simplified and there is a technical inaccuracy (which we have pointed out more than once via the GOV.UK 'is there anything wrong with this page' facility but, as yet, no steps have been taken to correct it).
- 4.3.7 The GOV.UK page gives the erroneous impression that if you are making money in the gig economy then you do not need to complete a tax return until you earn over the personal allowance.³ In fact, anyone who is self-employed with profits above the £1,000 trading allowance needs to complete a tax return and is obliged to tell HMRC so that a self-assessment record can be set up. Anyone who neglects to complete a tax return in reliance on this page risks being unintentionally non-compliant, exposing them to penalties for failing to notify HMRC of their need to be in self-assessment.⁴

¹ <https://www.gov.uk/search?q=declare+some+income> (accessed 5 June 2018)

² <https://www.gov.uk/income-from-selling-services-online>

³ "You pay tax if your income is more than your tax-free allowances and any reliefs you're eligible for", then a few lines further down: "If you [need to pay income tax], you may need to complete a self-assessment tax return or contact HMRC to declare all your income, including what you've earned through online networks." Putting the two statements together, it is easy for someone unversed in the law of taxation to conclude that a tax return only needs to be filed if one's income exceeds one's personal allowance and other reliefs.

⁴ The First-tier Tribunal case of *Mark Richard Beardwood v C&E Commrs* [2018] UKFTT 0099 (TC), is a prime example of the situation where the taxpayer was penalised by HMRC because he relied on incorrect guidance, and he had to go as far as the First-tier Tribunal before being exonerated. The GOV.UK website guidance led him to believe that he did not need to file a tax return in 2010/11 because his rental income (which was his only UK income that year) did not exceed their personal allowances. HMRC, claiming that they had issued a notice to file a 2010/11 return on 6 April 2011, issued non-filing penalties of £1,600 in total for 2010/11. The tribunal, describing the appellant's conduct as 'exemplary', noted that "the website guidance is at best unclear in places and caused puzzlement to the tribunal with its conflicting, vague and inconsistent advice". It also observed that "HMRC's submissions on this matter at the hearing and in the statement of case are unclear, and the

- 4.3.8 Errors and omissions from official guidance on GOV.UK may be irksome enough to professional advisers, but to unrepresented taxpayers who have only that guidance or helpline advice to rely on, it could lead to missing out on entitlements or even incurring penalties for unwittingly doing the wrong thing.
- 4.4 ***Question 4: In what ways do online platforms create new opportunities for individuals or businesses to deliberately avoid paying tax?***
- 4.4.1 The sharing and gig economies have certainly unlocked a great deal of economic activity and turned many people in the UK into micro entrepreneurs.
- 4.4.2 The fact that taxes are not withheld on the income generated means that there are more opportunities not to declare, or not to fully declare income. This, along with the perception that the whole industry is informal and unregulated undoubtedly leads to attempts at tax evasion. It should be remembered however that online platforms can also play a positive role, as they bring income that might previously have been received cash-in-hand into a more digital setting (the fact that such income is brought within closer reach of HMRC's investigation officers may act to dissuade potential tax evaders).
- 4.4.3 Not all non-compliant taxpayers are wilfully non-compliant though. We noted, for example, in our recent response to the Government consultation seeking views on cutting Airbnb type lets out of rent-a-room relief,¹ that the relief is likely being used when an entire property is let out (as opposed to just a room in a property), even though this may not have been the original intention behind rent-a-room relief. However, it seems likely to us that many 'entire house' hosts using rent-a-room relief are just as likely to be doing so under the mistaken belief their situation is covered, as doing so knowing it is not (but thinking that there is little chance of HMRC catching up with them).
- 4.4.4 Just as the taxpayer has responsibilities, so too do HMRC. As stated in para 4.1.8, HMRC have a responsibility to advise and educate users of online platforms and we provide some ideas as to how they can do this in the next section. This will help to ensure that those who wish to comply can. Additionally, as many 'tax evaders' in this area will have fallen into the hidden economy (despite wanting to do the right thing) because they did not understand their responsibilities fully, how to deal with them or where and how to get assistance, HMRC should consider how it can guide those taxpayers towards compliance in the most customer-friendly way possible.
- 4.4.5 Finally, we think the Government should be mindful that those insistent on evading taxes will probably find a way to do so regardless of how they generate their income. Even if people cannot hide cash earnings so easily via online platforms, they can overstate expenses

Tribunal is in some doubt about their accuracy. . . This is a case which the Tribunal considers should never have come before it."

¹ <https://www.litr.org.uk/sites/default/files/180222-LITRG-response-HMT-call-for-evidence-rent-a-room-FINAL.pdf>

for example. In cases such as these, enhancing understanding of what taxes are used for and improving 'tax morality' (as discussed below) will likely be most effective.

4.5 *Question 5: In what ways do the above issues differ for users who think of themselves as being in business compared to those who do not?*

- 4.5.1 Clearly, those in business should have a better grasp of tax and more confidence in navigating the system, than those who are not. However, this will not always be the case.
- 4.5.2 When it comes to tax evasion, in many ways, the distinction is not between users who think of themselves as being in business compared to those who do not, but rather those who have tax morality compared to those who do not.
- 4.5.3 Recently, a small but burgeoning literature has argued that tax non-compliance is higher when 'tax morale' is low.¹ Tax morale is defined as the intrinsic motivation to pay taxes and can rest on things like a person's trust and respect for the establishment and perceived fairness of society.
- 4.5.4 A tax system that is thought to be unfair (e.g. where rules are not applied proportionately and consistently) can make it easier for people to justify non-compliance. Unfortunately, there is a perception among the general public that big businesses and wealthy individuals can get away with not paying their taxes. In this context, whether or not this is factually true is irrelevant, as the concern is the perception of what the general public believe.
- 4.5.5 The Government needs to tackle this perception as a high priority if it wants to increase tax morality, including amongst users of online platforms.
- 4.6 *Question 6: What further opportunities exist for platforms to work together with HMRC to help users understand and meet their tax obligations?***

Question 7: What data do online platforms hold about their users and their activities on platforms? How could this data be used to help users to understand when they might incur a tax liability from their activity on the platform?

- 4.6.1 In addition to increasing education to improve taxation awareness from the outset and improving the GOV.UK core guidance (and working on the basic premise that most taxpayers want to comply with the law), HMRC urgently need to expand their presence within the sharing and gig economies to encourage and enable tax compliance.
- 4.6.2 Here are just a few of the steps that the authorities could be taking to do this:
- An online calculator could be developed by HMRC and built into the platforms' digital interfaces.

¹ See for example: Colin C. Williams, Besnik Krasniqi, (2017) "Evaluating the individual- and country-level variations in tax morale: Evidence from 35 Eurasian countries", Journal of Economic Studies, Vol. 44 Issue: 5, pp.816-832, <https://doi.org/10.1108/JES-09-2016-0182>

- HMRC could convey messages through the online forums to point users to appropriate HMRC publications or other sources of help.
- The search facility on GOV.UK could be configured to recognise the names of some of the more common platforms e.g. eBay, Uber, Airbnb, directing an individual using those terms in a search to an appropriate tax guidance page.
- HMRC should try and learn from the online platforms about specific challenges and issues for those in the sharing/gig economies and tailor their guidance for both taxpayers and HMRC staff.
- Following this, HMRC could consider setting up a sharing/gig economies helpline and web chat, staffed by people well-versed in matters surrounding the sharing/gig economies so that taxpayers who attempt to reach HMRC with questions can have a sensible conversation with someone about their tax issue. This could be publicised by the online platforms.
- HMRC could try and be creative in re-packaging existing content and tailoring it for participants in a sharing/gig economies, e.g. by making some webinars or YouTube videos that online platforms could link to. Of course, these would have to be maintained to ensure they were always up-to-date.
- HMRC could develop a checklist of issues that first-time persons participating in the sharing/gig economies should be aware of, containing links and cross references to more detailed material, that the online platforms could distribute.

4.6.3 We are also sure that online platforms could provide HMRC with enough information for them to help them establish whether individuals and businesses are paying the correct amount of tax, helping to identify problem areas and target resources more effectively.¹

4.6.4 The exact type of data held by online platforms depends on their business models, but we suppose most will be recording a myriad of data on transactions taking place including gross income, which could be most useful to HMRC.

4.6.5 Using this information, nudges or prompts could also be built into user accounts by online platforms, to help users understand when they might have tripped a tax obligation or to flag up reliefs or allowances to which they are entitled (although people would obviously need to take into consideration income from other sources: see below).

4.7 ***Question 8: What opportunities or challenges are created by users working across multiple platforms or working with platforms indirectly through intermediaries?***

4.7.1 The current system was not designed to collect tax in circumstances where individuals do not fully understand their compliance obligations, and the problems arising from this (as

¹ Whether voluntarily or by HMRC using their data-gathering powers.

alluded to throughout this paper) are compounded when talking about those with multiple income streams.

- 4.7.2 Users of multiple platforms (potentially also with income from different activity streams, such as on and off-platform, self-employment and employment, etc.), face practical challenges in terms of being able to understand when they might have tripped a tax obligation, particularly where these different income streams comprise lots of relatively small amounts. In addition, different rules and allowances can apply for income received from different sources, leading to total confusion for some individuals and resulting in tax returns being filled out incorrectly or not at all.
- 4.7.3 On the other hand, multiple platform-using creates an opportunity for HMRC as, if the same tax messages are being seen across the platform borders (certainly on ones specific to UK), this could help embed a culture of tax compliance around sharing/gig economy income.
- 4.7.4 We are aware that there are a number of 'smart' banking products coming to market¹ to provide tailored banking for those in the sharing/gig economy, that could help ease the tax compliance burden for those with multiple income streams.
- 4.7.5 If people used such accounts across all their sharing/gig economy activity, this could help them manage and track their income and outgoings over numerous sources. Presumably such bank accounts do things like give reminders of tax deadlines and will have nudges and prompts around thresholds and the ability to estimate a running tax bill, based on the individual's collated information.
- 4.7.6 These products seem like they could have a lot to offer those in the sharing/gig economies in terms of managing their money and getting an overall picture of their positions, however there would appear to be a cost connected to such services and there may well be limitations – we are unsure how it plugs into the Making Tax Digital programme for example, or how it deals with expenses that need to be apportioned.
- 4.7.7 If HMRC have not done so already, we suggest that these bank accounts may be worth investigating further as part of their work in this area, in order to establish the benefits and risks to users and whether any official collaboration might be in order (in the same way as HMRC work with software providers currently, for example²).

5 Other countries and potential approaches – general comments

- 5.1 We think it would be unwise to let a big economic phenomenon like the sharing/gig economies emerge without thinking of a way of taxing it without so much dependence on

¹ For example, <https://getcoconut.com>

² <https://hmrcdigital.blog.gov.uk/2015/10/06/continuing-our-conversation-with-software-developers/>

self-assessment. It is therefore good to see the Government thinking more strategically about using online platforms to aid compliance.

- 5.2 While it seems to chime with HMRC's 'death of the tax return' ambition, we assume it is not possible for HMRC to implement the Estonia model (e.g. the online platforms sending data to the tax authorities to allow pre-population of returns) any time soon. We therefore focus our thoughts on the other policy approaches. Both information provision (the French approach) and withholding (the Belgian approach) have merit and it may be that a combination of them would work best for the UK.
- 5.3 There are two broad categories of online platforms: (1) labour platforms (for those trading or working) and (2) capital platforms (for those selling and renting items). The first thing to say is that we do not think that any 'interventions' should be limited to labour platforms only (as is suggested in the consultation document).
- 5.4 The second thing to say is that it seems there are real differences between users of these two groups and different levels of compliance 'risk' attached to them – dealing with them all in the same way may not be fair or desirable.
- 5.5 Given the fact that those selling unwanted possessions may not attract a tax liability (and even where their selling amounts to a trade, the trading allowance may cover it) and those that are renting out assets may enjoy exemptions anyway, e.g. the property allowance and/or Rent a Room relief, it may be the case that providing capital platform users with a description of their obligations in relation to each transaction (the French model) finds the best balance in the circumstances.
- 5.6 On the other hand, working activities seem likely to generate higher levels of income and given the difficulties and complexities that can exist as a matter of economic reality for those in the gig economy, it may be the case that withholding (the Belgian model) is a better option here.¹ (Please note that we are not necessarily recommending these options, we are merely putting them forward as ideas that could be considered.)
- 5.7 A withholding tax would improve compliance and reduce the stress and anxiety that must go hand in hand with tax compliance in the gig economy, as there would be no need to budget for taxes during the year. The most significant consideration in designing a withholding tax is the proper withholding rate – this would need to be carefully considered given some gig economy workers have significant expenses.² Although over-withholding may serve as a form of forced saving for lower-income workers (which may have some benefits if they need

¹ Of course, some people renting out assets can make a lot of money from doing this, for example, see here: <http://www.bbc.co.uk/news/business-44301183>, although we might expect that many such people will be sophisticated taxpayers, already in self-assessment.

² This is often reported in respect of Uber drivers who often have to lease a car to meet the required standards as well as foot the normal running costs.

a lump sum of money for something, for example), this should not be used to justify an over-withholding approach – cash-flow problems can be disastrous for the low-paid.

- 5.8 One option would be a straight withholding at a particular rate – perhaps with different percentages for different sectors (a bit like flat rate VAT scheme). Another option would be something more akin to the PAYE system, which is more sophisticated (although not always accurate). Perhaps it is possible to advance beyond both these models to one that can be tailored to individual liabilities by asking a few simple questions. For example, a gig economy worker could log on to an online calculator and in a secure space answer questions such as ‘is this your only source of income?’, ‘do you have any deductions to make from this income?’, ‘do you have any allowances to use?’. It could also be configured to deduct National Insurance, given the problem raised at para 3.3.
- 5.9 We note the IRS has recently released a withholding tax calculator¹ which helps taxpayers identify their correct tax withholding. We suggest that this, and other international withholding models, would be worth investigating further as part of the Government’s work.
- 5.10 In addition, consideration should be given to the circumstances in which withholding should apply. One possibility might be to apply it on income over a certain level or where an individual is not able to demonstrate that they have registered for self-assessment (via the provision of a Unique Taxpayer Reference number, for example, which the online platform could then verify with HMRC). In all cases, the other aspect of the Belgian model could be invoked – providing users with an annual statement showing the services provided and the gross income (and tax withheld, where appropriate) to further encourage and support them in dealing with their tax affairs.
- 5.11 It goes without saying that any withholding requirement must work from both the perspective of HMRC and the online platform and it should not be so resource intensive that it is uncommercial for the engager to apply it, or for HMRC to monitor it. It is vital that HMRC work closely with and develop good guidance for the online platforms, to ensure they ‘buy in’ to the concept and understand what is expected of them.
- 5.12 However, withholding will not ease all of a worker’s tax compliance burden; under general principles, they will still need to fill in a tax return at the end of the year to reconcile their position. As discussed throughout this paper, many are just unable to cope with the complicated, time-intensive and administratively cumbersome task of filing self-assessment tax returns.
- 5.13 As many will be due refunds (even where the withholding rate has been properly considered), they may feel compelled to turn to a tax agent for assistance. While there are many good tax agents, they can often be expensive and many workers will simply not be able to afford their services. Gig economy workers may also become a target for the less scrupulous, usually unaccredited ‘high volume’ repayment agents who, working on a percentage fee basis, have a vested interest in maximizing the value of the claim, often

¹ <https://www.irs.gov/individuals/irs-withholding-calculator>

illegitimately (problems currently experienced in relation to the Construction Industry Scheme¹).

- 5.14 It seems to us that easing the situation of these individuals by allowing them to make a quick and simple online claim for repayment, possibly via their Personal Tax Account, as an alternative to a full calculation on a tax return, could save considerable effort all round. Alternatively, a P800 type automatic reconciliation could occur at the end of the year (based on the availability of the personal allowance/£1,000 allowances), with the onus put on the few gig economy workers that may have more complex positions to tell HMRC so that alternative arrangements can be made.
- 5.15 It goes without saying that if withholding is implemented for certain types of economic activity then it should be implemented across all platforms of a similar kind dealing with that activity to promote fairness and to prevent people exploiting the differences.
- 5.16 It is also worth noting that the withholding idea is interesting in a UC context. Those in the gig economy may be on a low income, so may rely on in-work benefits such as UC. UC is based on a worker's net (after tax) income (with any tax refund relating to paid work then being treated as self-employed income when it is received). There are complexities to consider as a result – e.g. will such workers fare worse with the Minimum Income Floor (a self-employed UC claimant's benefit is restricted if they do not earn a minimum amount each month)?² How will the Department for Work and Pensions know about any refund received (it will not be on a Real Time Information feed, like the original income/deductions and so will rely on people telling them)?
- 5.17 There is obviously a lot to consider here and we suggest the Government consult further to understand the impacts on those involved (and the feasibility of implementing either of these two approaches as they will largely rely on cooperation of the online platforms). In the meantime, the first step must surely be to make it clearer to sharing and gig economy users what their tax obligations are within the existing framework.

LITRG

8 June 2018

¹ As explained here: <https://www.taxation.co.uk/Articles/2013/07/03/309981/sign-here-or-else>

² Usually equates to the National Living Wage (NLW) for 35 hours a week.